

CHALLENGES OF THE SUPPLY CHAIN IN AN OMNICHANNEL WORLD

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Like it or not, customers are omnichannel in their thinking and behavior. Sellers need to be as well....The question for sellers is how to implement it most effectively.

MIT Sloan Management Review (Fall 2014)

ASSESSING YOUR OMNICHANNEL PROCESS CAPABILITIES—CAN YOUR FIRM DO THIS?

- Have internal inventory visibility across channels?
- In-store inventory visibility to consumers shopping online?
- Track in-store fulfilment costs?
- Track customer satisfaction with in-store fulfilment and pick-up processes

ASSESSING YOUR OMNICHANNEL PROCESS CAPABILITIES—CAN YOUR FIRM DO THIS?

- Able to take, edit, or view orders across multiple channels?
- Assess the profitability of multiple fulfilment points while accepting an order?

If the answer to most or all of these questions is NO, then you are not implementing an omnichannel strategy

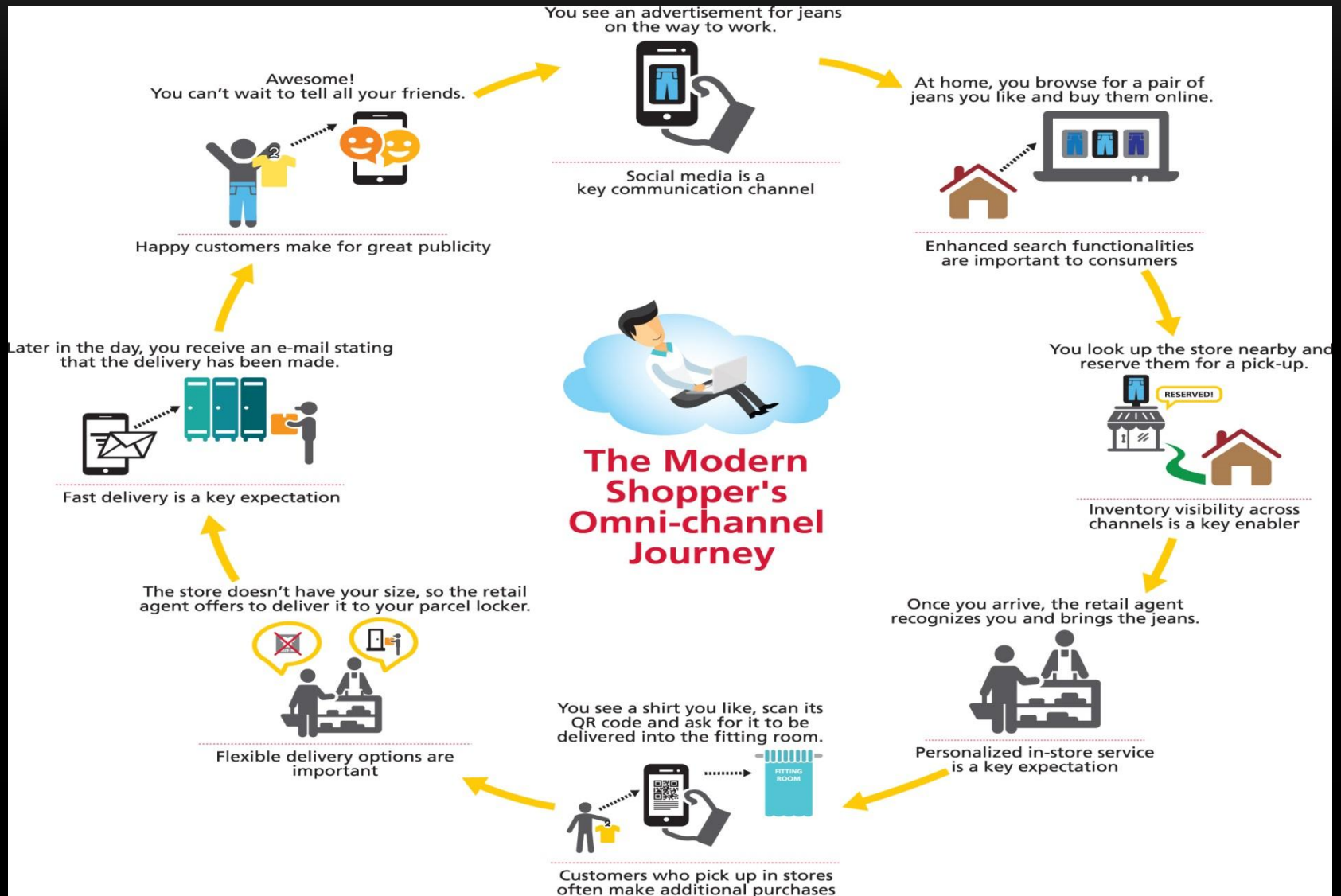
THE OMNICHANNEL SHOPPING JOURNEY



Profitable Omni-Channel for Dummies (2016)

OMNICHANNEL CUSTOMER JOURNEY—AN EXAMPLE

SOURCE: INFOGRAPHIC 'THE MODERN SHOPPER'S OMNI-CHANNEL JOURNEY' (DECEMBER 2015)



The youth culture “always-on” wireless connectivity psyche is at their core and increasingly drives online growth.

Tompkins International (2013)

HOW DO CUSTOMERS STAY CONNECTED?

- Mobile smart phone
 - Mobile coupons
 - Store finder apps
 - Electronic in-store stock checks
 - Flash sales (“deal of the day”)
 - **Geofencing** (creates virtual boundaries around a location)
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SEAMLESS SERVICE IN OMNICHANNEL RETAILING

- 90% of shoppers expect a seamless omnichannel service experience
- 2/3 say they're less likely to buy from a retailer who can't confirm product availability
- 49% of retailers say that "a good customer experience in one channel is not enough to maintain loyalty"

Saddle Creek Logistics Services (July 2016)

CHARACTERISTICS OF THE NEW ERA OF RETAILING

- Shopping malls are seeing less and less traffic
 - Macy's, Sears, and other department stores are closing locations
 - Online sales are growing significantly, while in-store sales are stagnant or declining
 - Amazon has changed the retail environment forever; big box retailers are losing their dominance
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THE AMAZON FACTOR

Whether a firm competes with Amazon or not, the competitive landscape has changed as a result of what they have done and what others have done to copy them

- Extensive inventory
 - Fast delivery
 - Multiple delivery methods
 - Customers drive the process
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TOPICS TO BE COVERED

- What are the differences between multi-channel retailing and omnichannel retailing?
 - Understanding the various segments of customers and their purchasing requirements
 - The customer buying decision
 - **Product returns**
 - Consumer-driven trends in retailing
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DEFINITIONS

- **Multi-channel:** companies sell through several sales channels, but each channel—brick & mortar, catalog, ecommerce, contact center, mobile—is independent of the others.
 - Retailers are just offering customers a selection of channels to choose between

DEFINITIONS

- **Omnichannel:** customers can use more than one sales channel to shop from a retailer for any given transaction; they can buy online and pick up in-store, use mobile in-store to research or make a purchase, or they can buy in-store and initiate a return online.
 - Retailers are working toward a 360-degree view of their customers' purchases across all channels.

TOP FIVE CONSUMER TRENDS IN COLOMBIA

- Rising middle class driving changes in spending habits
- Falling crime impacting consumer behavior
- Income equality declining
- Consumers of all ages embrace technology
- Demand for healthier and organic products rising

Consumer Lifestyles in Colombia (July 2015)

WHO ARE THE CUSTOMERS?

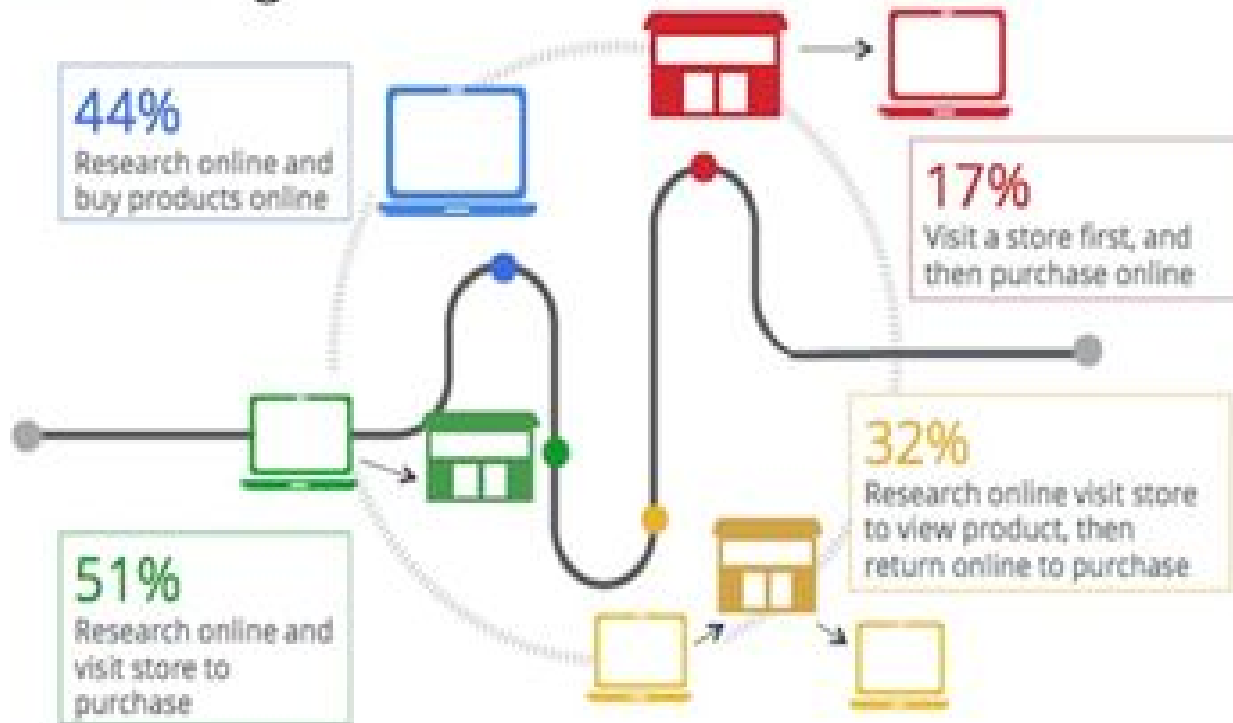
- Millennials will be the largest group of omnichannel retailing and will become a more significant factor over the next 10 years
 - Baby boomers who will prefer to shop from home so that they don't have to travel to stores
 - Anyone else who values time and convenience highly
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THE THEMES OF OMNICHANNEL RETAILING

- **Omnichannel strategy**—adaptive supply chain that can provide customers with products and information anytime and anywhere
- **Fulfillment methods**—different sales channels create separate demand streams which are distinct in terms of order size, delivery requirements and customer expectations
- **Delivery options**—free delivery; fast delivery
- **Leverage the store**—in-store pickup and returns
- **Other**—location of inventories and SKU mix; sourcing items where they can be created best—at the best cost and with flexibility and reliability

OMNICHANNEL STRATEGY

Lines between offline and online shopping experiences are blurring



Blog by Andy Asava (August 4, 2015)

FULFILLMENT METHODS

- 8 in 10 retailers are spending more on order management and fulfillment
 - A single pool of inventory for all channels is the optimal solution, even if they are in multiple facilities (Note: Most retailers have separate fulfillment centers for ecommerce vs. brick-and-mortar sales)
 - Shared forecasts across all channels will result in fewer stockouts
 - Use of 3D technology where appropriate
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FULFILLMENT METHODS

- Elimination of legacy systems and implementation of the latest Warehouse Management System (WMS), coupled with the right Transportation Management System (TMS)
- Use of mobile devices in the warehouse
- Warehouse location strategies
 - Outsourced or in-house
 - Positions relative to retail stores/customers
 - Direct shipments to customers
 - Use of cross-docking

DELIVERY OPTIONS

- 93% of customers say shipping options are an important factor in the shipping experience
- 68% have used coupon codes to get free shipping
- 60% have increased their online spending to qualify for free shipping

Pitney Bowes Holiday Shipping Survey (2015)

The expectation today is that on orders over a certain amount (approx. \$25 in the USA), shipping will be free on “normal” delivery time frames.

Tompkins International (2013)

DELIVERY OPTIONS

- 64% of shoppers say delivery speed is important when buying online
- 60% said they would buy elsewhere if their preferred method of delivery wasn't available
- 45.3% of retailers and ecommerce companies are feeling pressure to ship faster

Saddle Creek Logistics Services (July 2016)

LEVERAGING TECHNOLOGY TO ENGAGE CUSTOMERS IN LAST MILE DELIVERY

- 86 % are willing to pay more for a better customer experience
 - **Full visibility over deliveries**—customers want to know exactly where their delivery is and when it will arrive
 - **Open line of communications**—avoid possible problems by enabling open communication between the customer and the business (digital interactions now exceed voice communications)
 - **Rating the service received**—empower customers to give them an outlet to rate their experience
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AFTER THE SALE—PRODUCT RETURNS

- Most firms are still not very good at handling product returns to minimize costs and maximize revenues
- Can be a sustainable competitive advantage if done right
- An easy concept to visualize, but a difficult one to implement successfully
- Has become more important in an omnichannel environment

CONSUMER-DRIVEN TRENDS IN RETAILING

- Use of social media
 - 70% of consumers research online before purchasing in-store
 - Average shopper uses approximately 10.4 sources of information to make a purchase decision (retail and mfg. websites, Twitter, Facebook, etc.)
 - Retailers can create positive word-of-mouth by integrating customer purchase and experience stories, ratings and reviews, and Q&A into the online and in-store shopping experience

Bazaarvoice.com (2016)

FACTOIDS

- Use of social media as an information source is growing
- Consumer products are frequently discussed on Facebook, Twitter, etc.
- There are 310 million users of Twitter as of the first quarter of 2016

FACTOIDS

- There are more than 500 million people who are users of Instagram (June 2016)
- Facebook's 1.65 billion active monthly users expressed over 4.5 billion opinions a day (April 2016)—every 60 seconds, 510 comments are posted

CONSUMER-DRIVEN TRENDS IN RETAILING

- Demand sensing and use of big data analytics
 - Examination of unstructured data from social media sites
 - The world creates 5 exabytes of data every two days, which is roughly the same amount created between the dawn of civilization and 2003

[1 exabyte is one quintillion bytes or 10^{18} bytes]

Eric Schmidt, CEO, Google

CONSUMER-DRIVEN TRENDS IN RETAILING

- Demand sensing and use of big data analytics
 - Data analytics takes large amounts of data and analyzes it by running the data through hundreds of iterations in order to test different theories about patterns within the data
 - Tests are run on hardware and software that can return results within seconds, allowing decision-makers to make decisions more quickly
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BIG DATA—A MUSIC INDUSTRY EXAMPLE

- EMI Music observed that one of their new artists boasted a strong following among one group, but little recognition in other demographic groups
- EMI observed that other music fans were starting to take notice of the artist
- EMI has a dataset that contains over a million consumer interviews conducted in 25 countries
- Each interview generates about 100 pieces of data, covering people's reactions to new music and where the person shops for music

A MUSIC INDUSTRY EXAMPLE (CONTINUED)

- The interview results are combined with data from Spotify, a music-streaming service with a library of 15 million tracks and 3 million paying users
- Spotify provides EMI with anonymized data on every track that a user listens to
- EMI combines their data with Spotify's to track an artist's popularity among different demographic groups
- They target their marketing spend accordingly

A MUSIC INDUSTRY EXAMPLE (CONTINUED)

- If an artist shows signs of attracting attention among an untapped group of consumers, EMI may try to place the artist on radio and TV shows that are popular with that demographic
- If the potential is large enough, they might launch a television advertising campaign
- One artist identified by this process was backed by a major marketing campaign resulting in a # 1 hit

SOME POTENTIAL USES OF DATA ANALYTICS

- Rooms to Go and Ashley Furniture finding out which customers are most likely to not be at home for a furniture delivery appointment
- Victoria's Secret Direct identifying customers that are most likely to return merchandise and which type of merchandise they return
- Publix Supermarket identifying which individuals are most likely to become loyal customers that buy groceries almost exclusively at Publix rather than splitting purchases between multiple grocery stores

CONSUMER-DRIVEN TRENDS IN RETAILING

- Use of cloud technology
 - Provides the technology at a lower cost than doing it yourself (good for small and medium-size retailers)
 - Provider does the updating of the technology so the retailer is not required to spend resources to get the latest versions of the software
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CLOUD TECHNOLOGY IS CHANGING THE FACE OF SUPPLY CHAIN MANAGEMENT

- **Connectivity**--everyone is accessing the same data from any point, using any device
- **Scalability**--firms can quickly scale up or down and seamlessly integrate with existing software systems
- **Collaboration**--all trading partners are connected through single and centralized SCM software
- **Efficiency**--promotes greater integration of different systems and platforms to share data; accessibility to up-to-date information
- **Cost-effectiveness**--reduces operational cost such as data security; e.g., hardware costs, data analysis and reporting

Supply Chain Brain (July 2016)

CONSUMER-DRIVEN TRENDS IN RETAILING

FierceRetail (22 July 2016)

Increasing Use of Mobile Technology

- Use of smartphones for purchases and product research (85% of US parents shopping for back-to-school items used a smartphone to help)

Applications

- Comparing prices (65%)
- Searching for deals (62%)
- Creating shopping lists (53%)
- Checking store hours (52%)
- Researching products (49%)
- Accessing saved coupons (48%)
- Finding store locations (48%)
- Make actual purchases (42%)

USE OF INFORMATION TECHNOLOGY TO PROVIDE GREAT CUSTOMER SERVICE

- **Dreams Limited (UK)**

- 6,000 home deliveries a week
- Customers can buy a bed online or in stores and book a delivery up to 90 days in advance
- When a customer buys a bed, the software calculates the earliest availability for the product; information feeds into the firm's Home Delivery System which identifies the available delivery dates to offer the customer; information is presented graphically to sales staff in **red**, **amber** and **green**, with green being the most efficient delivery

REQUIREMENTS FOR FUTURE SUCCESS IN OMNICHANNEL RETAILING

- **Accuracy:** accuracy of the merchandise plan, of forecast projections, of being able to support multiple channels out of one inventory pool; to know where demand's coming from and where inventory is stored
- **Integration:** integrating planning across the omnichannel
- **Efficiency:** spreadsheets take time and labor; develop automated work flows that reduce the time needed to compile data and emphasize merchandising expertise
- **Agility:** being able to identify trends in real-time, not just weekly or daily trends

Chuck Miller, VP of Retail, *Logility* (December 21, 2015)

FIVE PILLARS OF OMNICHANNEL RETAIL SUCCESS

- Great prices
 - Almost unlimited selection online
 - Best-in-class convenience
 - Personalized experience
 - Minimize risk to the customer (product returns, warranties)
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A FINAL THOUGHT

*More than 82 % of business now
consider customer experience to be a
competitive differentiator*

*Dimension Data Global Contact Center
Benchmarking Report (2016)*

QUESTIONS ?